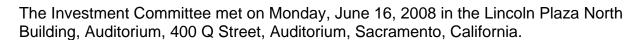


# CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM BOARD OF ADMINISTRATION INVESTMENT COMMITTEE

### MINUTES OF MEETING OPEN SESSION

June 16, 2008



The meeting was called to order at approximately 10:15 a.m. and the following members were present:

Priya Mathur, Vice Chair
John Chiang, represented by Terry McGuire
David Gilb, represented by Debbie Endsley and Greg Beatty
Henry Jones
Bill Lockyer
Louis F. Moret
Tony Oliveira
Anne Sheehan
Charles Valdes

Steve Coony represented Bill Lockyer

Investment Committee members excused: George Diehr, Chair Marjorie Berte Rob Feckner Kurato Shimada

Agenda items were taken out of order to accommodate individual schedules.

#### AGENDA ITEM 2 – APPROVAL OF MAY 2008 MEETING MINUTES

On **MOTION** by Mr. Valdes, **SECONDED** and **CARRIED** that the May 12, 2008 Open Session minutes be approved as presented.

## AGENDA ITEM 6b – INFLATION-LINKED ASSET CLASS (ILAC), Presentation on Ontario Municipal Employee Retirement System (OMERS) Infrastructure Program

Michael Rolland, President and CEO, Borealis Infrastructure Management, provided an overview of the OMERS' system, including the Infrastructure Program structure, performance, and future strategy. Mr. Rolland responded to a broad range of questions from the Committee members, including issues relevant to program start up timelines, policy and procedure development, public/private partnership structures, and leverage levels.

#### **RECOGNITION**

Vice Chair Mathur acknowledged Russell Read for his accomplishments over the past two years as the Chief Investment Officer, particularly in the areas of fund growth, portfolio diversification, strategic asset class restructuring, and environmental investment opportunities.

The meeting recessed from 11:15 to 11:40 a.m.

#### AGENDA ITEM 3a - TOTAL FUND, CalPERS Total Fund Quarterly Report

Michael Schlachter and Andrew Junkin, Wilshire Associates, presented the Executive Summary of the Investment Performance of the CalPERS Total Fund, Affiliate Funds, Legislators' Fund, Annuitants Healthcare Plan, and the Supplemental Income Plans for the quarter ending March 31, 2008. Performance for each fund and each asset class was reviewed. It was noted that CalPERS generated a total fund return of -4.4% for the quarter and 2.7% for the year. The total fund composite lagged its strategic policy. The System has beaten its weighted policy index and its actuarial rate of return for the 3-year and 5-year periods, and has outperformed against its policy index for the 10-year period.

Nori Gerardo Lietz, PCA-Real Estate Advisors, (by phone) provided a real estate update and noted that although the Special Real Estate portfolio has shown a negative 7% return (attributable to issues in the housing program), the Core portfolio is generally doing quite well at a 20% return. She also noted that capitalization rates are increasing which may cause sizable adjustments in value, and that market conditions are being exacerbated by the credit crunch.

Mike Moy, Pension Consulting Alliance, provided a private equity update including remarks that the time lag in reporting the results for private equity is impacting the return profile, and the absence of liquidity in the credit markets is drastically impacting the number of transactions by private equity managers.

The Committee accepted the quarterly information reports.

## AGENDA ITEM 3b – TOTAL FUND, Update on Implementation of Asset Allocation Strategy

Farouki Majeed, Senior Investment Officer, provided an update on the implementation of the Asset Allocation Policy adopted in December 2007, including new target weights and proposed plan for target adjustments.

Michael Schlachter and Andrew Junkin, Wilshire Associates, were available to respond to guestions from the Committee.

#### AGENDA ITEM 3c - TOTAL FUND, Update on Currency Hedging Program Review

Farouki Majeed, Senior Investment Officer, and Curtis Ishii, Senior Investment Officer, presented the item. Michael Schlachter and Andrew Junkin, Wilshire Associates, were available to respond to questions from the Committee.

Staff provided an update on the ongoing review of the currency policy.

The Committee provided feedback and further discussion will be scheduled.

### AGENDA ITEM 3d – TOTAL FUND, United Nations Principles for Responsible Investment Update

Anne Stausboll, Interim Chief Investment Officer, presented the item.

In April 2006 at the direction of the Investment Committee, CalPERS became one of the original signatories of the Principles for Responsible Investment (PRI), which CalPERS helped develop. Staff updated the Investment Committee on CalPERS' involvement with the PRI and how CalPERS incorporates the Principles, consistent with its fiduciary duty, into its investment programs.

The Committee accepted the annual information report.

#### AGENDA ITEM 4 – REAL ESTATE,

There were no items to report.

# AGENDA ITEM 5a – ALTERNATIVE INVESTMENT MANAGEMENT (AIM) PROGRAM, Public Sector Outsourcing Policy Update

Leon Shahinian, Senior Investment Officer, presented the item.

The Public Sector Outsourcing Policy was approved by the Investment Committee in December 2004. The objective of the Policy is to restrict private equity investments in entities that are likely to outsource (or privatize) U.S., state, and local public sector jobs.

Staff provided an update about results and effectiveness of the Policy. To date, there have not been any adverse impact on AIM's investment opportunities or issues associated with compliance as a result of implementing the Policy.

### AGENDA ITEM 6a – INFLATION-LINKED ASSET CLASS (ILAC), Implementation Update

Farouki Majeed, Senior Investment Officer, reported on implementation of the Inflation-Linked Asset Class (ILAC), including the commodities, inflation-linked bonds, infrastructure, and forestland components. An update was provided for each component in the areas of investment policies, staffing, delegations, incentive plan, and investment implementation.

Staff will continue to provide monthly ILAC implementation updates.

#### AGENDA ITEM 7a – GLOBAL FIXED INCOME, Securities Lending Annual Review

Curtis Ishii, Senior Investment Officer, Arnold Phillips, Senior Portfolio Manager, Dan Kiefer, Portfolio Manager, and Jean Hsu, Portfolio Manger, presented the item. Michael Schlachter, Wilshire Associates, was available to respond to questions from the Committee.

Staff reported regarding program details for the year ending March 31, 2008, including a program history and a general program summary and a cash reinvestment summary.

The Committee accepted the annual information report.

# AGENDA ITEM 7b – GLOBAL FIXED INCOME, Revision of Policy on Credit Enhancement Program

Mr. McGuire stated that "in an abundance of caution, the Controller is going to recuse from this item." The Controller's representatives left the room.

Curtis Ishii, Senior Investment Officer, Arnold Phillips, Senior Portfolio Manager, and Dan Kiefer, Portfolio Manager, presented the item. Michael Schlachter, Wilshire Associates, was available to respond to questions from the Committee.

Staff presented an analysis and rationale for the proposed policy revision

On **MOTION** by Mr. Valdes, **SECONDED** and **CARRIED** to approve the revised Credit Enhancement Program Policy to increase the program total aggregate commitment from \$5 billion to \$10 billion, and eliminate the dollar based transaction limit.

The meeting recessed from 1:00 to 1:45 p.m.

### AGENDA ITEM 8a – GLOBAL EQUITY, Manager Development Program I and II Annual Review

Eric Baggesen, Senior Investment Officer, Mary Cottrill, Senior Portfolio Manager, and Melissa Paminto, Investment Officer, presented the item. Andrew Junkin, Wilshire Associates, was available to respond to questions from the Committee.

The Manager Development Program (MDP) is a unique program in which CalPERS, through its MDP partners, provides venture capital to emerging public markets investment managers in return for a minority equity stake, and also provides funds for the emerging firms to manage.

Staff provided an update on CalPERS' MDP, including a review of the investment portfolio performance and venture capital portfolio performance, including MDP partner performance through May 2008.

The Committee accepted the annual information report.

### AGENDA ITEM 8b – GLOBAL EQUITY, Consultant Review of Internal Equity Index Program

Michael Schlachter, Wilshire Associates, presented the item. As part of Wilshire's contractual requirement to periodically review all of the internal asset management functions, Wilshire conducted an on-site review of the Global Equity internal index team's personnel, investment process, and resources. The report findings were presented.

Eric Baggesen, Senior Investment Officer, and Dan Bienvenue, Portfolio Manager, outlined an action plan to grow the internal equity program in the areas of data, technology, and team organization.

The Chair directed staff to bring back an update on actions taken to further support the infrastructure for the internal equity index programs in three to six months.

#### AGENDA ITEM 8c – GLOBAL EQUITY, Corporate Governance Update

There were no items to report.

## AGENDA ITEM 9a – SUPPLEMENTAL INCOME PLANS (SIP), Third Party Administrator Update

Geraldine Jimenez, SIP Division Chief, presented the item. Andrew Junkin, Wilshire Associates, was available to respond to questions from the Committee.

On May 2, 2008, CitiStreet, the Third-Party Administrator (TPA) for the SIP, announced that it was being purchased by ING. The sale is expected to close by the end of the

third quarter of this year. CitiStreet plays a major role in the day-to-day recordkeeping and customer service provided to local agencies and participants on behalf of CalPERS. Staff outlined steps that will be taken to ensure the current contract terms and conditions remain intact prior to assigning it to ING.

Staff intends to return to the Investment Committee in August to either approve a contract amendment or to recommend other options.

## AGENDA ITEM 10a – CHIEF INVESTMENT OFFICER'S / CHIEF OPERATING INVESTMENT OFFICER'S REPORT, Consolidated Investment Activity Report

Anne Stausboll, Interim, Chief Investment Officer, presented the item.

The Committee accepted the Consolidated Investment Activity Report. The total market value of the fund as of April 30, 2008, was approximately \$248.4 billion and the total book value was approximately \$205.4 billion.

# AGENDA ITEM 10b – CHIEF INVESTMENT OFFICER'S / CHIEF OPERATING INVESTMENT OFFICER'S REPORT, Chief Operating Investment Officer's Status Report

The Committee accepted the Chief Operating Investment Officer's Status Report and the 2008 Master Agenda Item Calendar.

#### AGENDA ITEM 11 - DRAFT AUGUST 2008 AGENDA

The Committee accepted the proposed August 18, 2008 agenda.

#### **AGENDA ITEM 12 – PUBLIC COMMENT**

There were no comments from the public.

The meeting was adjourned at 2:50 p.m.

The next Investment Committee meeting is scheduled for August 18, 2008 in Sacramento, California.

Kenneth W. Marzion
Interim Chief Executive Officer